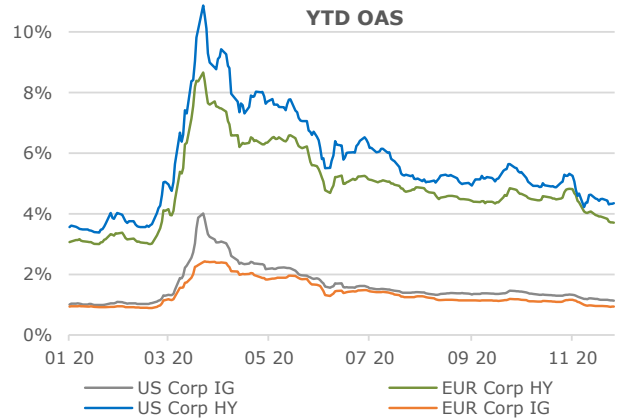


Monthly Spotlight

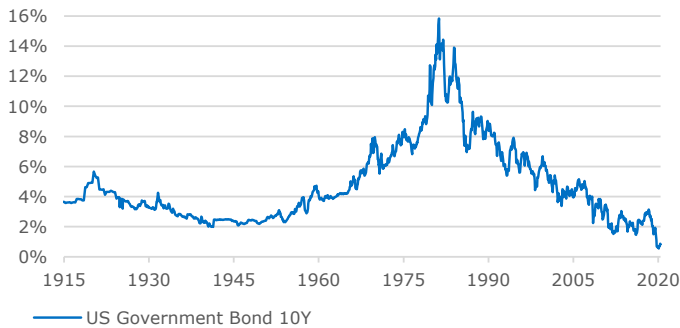
IG credit spreads almost reached pre-Covid levels

During the market rally in November credit spreads have further tightened and reached almost pre-Covid levels in the investment-grade category, whereas spread levels are still wider in the high-yield market. OAS of broad US investment-grade corporate bonds are now only slightly higher (112 bps) in comparison to the start of 2020 (99 bps). US high-yield bond prices jumped in November with the positive vaccination news and as these bonds are more cyclical in nature and strongly benefit when the broader economy further "normalizes". Meanwhile, investment-grade bonds will be challenged at some stage with their embedded "duration" feature. While short term rates will remain low, the yield curve might steepen heading into 2021.

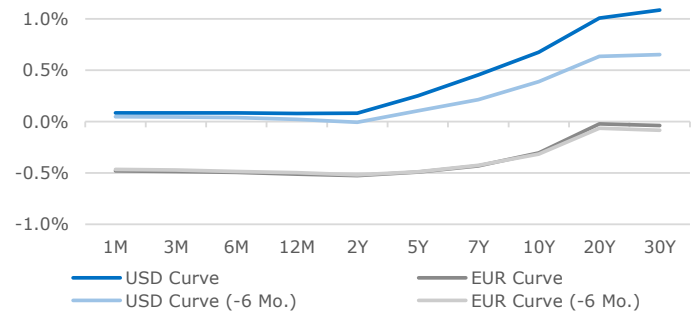


Rates Perspective

1) Historical US Treasury Yield: 10-year US government bond yield reached its 100-year low of 51 basis points in 2020.

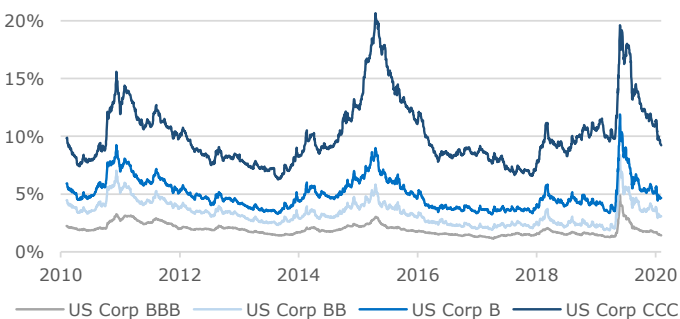


2) Interest Swap Curve: USD swap curve has further steepened due to cyclical recovery hopes. EUR swap curve remained unchanged.

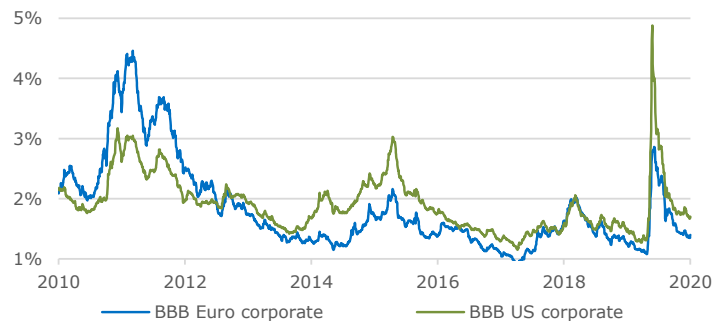


Corporate Perspective

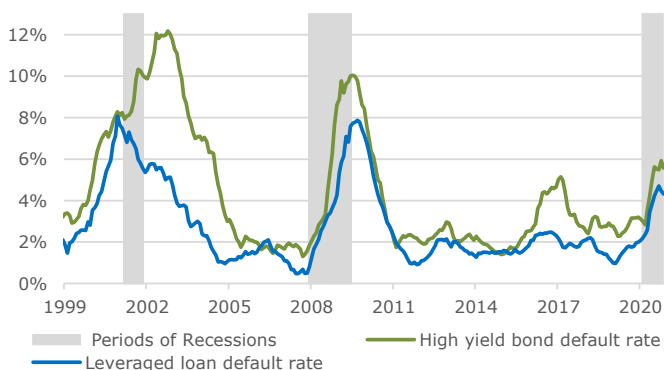
3) US Corp. Rating: In November 2020, credit spreads (OAS) of CCC-rated bonds even tightened in the energy and transport sector.



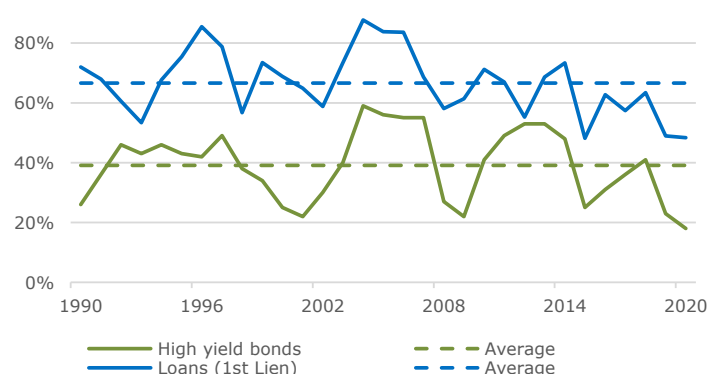
4) EU vs US: Since the March-spike, credit spreads (OAS) between the USA and EU have converged in tandem to lower levels.



5) Default Rates: Default rates of HY bonds & loans are peaking. HY bond default rates are structurally higher (Ø4.4%) vs. loans (Ø2.8%).



6) Recovery Rates: Recovery rates of leveraged loans are higher (Ø67%) vs. high yield bonds (Ø39%) due to lower severity.



OAS spread change overview across major credit asset classes - as of month end

US corporates by rating (bps)

	curr	Δ monthly
AAA	59	-13
AA	69	-13
A	84	-15
BBB	143	-28
BB	308	-76
B	465	-103
CCC	922	-219

Global high yield (bps)

	curr	Δ monthly
US HY	433	-92
EU HY	369	-112
Asia HY	799	-83
EM HY	471	-94

■ spread tightening (positive price action)
■ spread widening (negative price action)

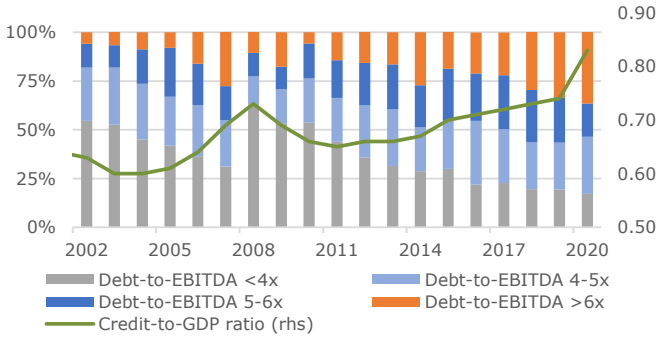
CDS spreads (bps)

	curr	Δ monthly
iTraxx IG - EU	51	-14
CDX IG - US	49	-17
iTraxx XO - EU	307	-114
CDX HY - US	267	-103

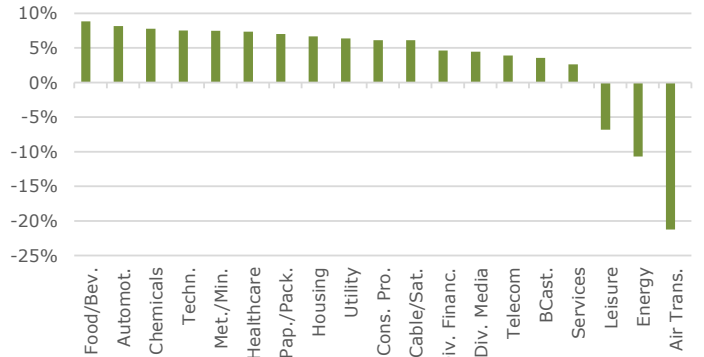
Loans and CLOs (yld, bps)

	curr	Δ monthly
US Loan	415	-64
CLO AAA	151	-27
CLO BBB	432	-74
CLO BB	828	-138

7) US Leverage: Debt-to-EBITDA of US companies decreased in Q1 2020, but increased to a record high in Q3 2020.

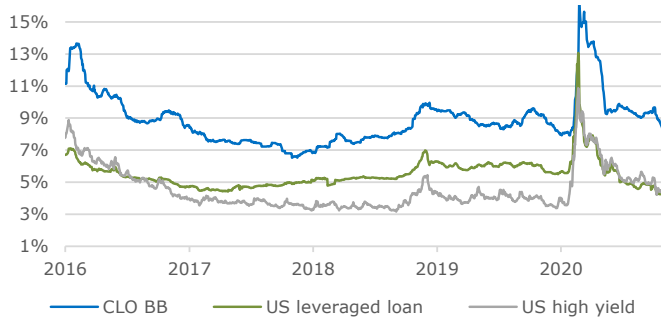


8) YTD Sector High-Yield Returns: Year-to-date Leisure, Energy and Air Transportation are the only sectors still performing negative.



Alternative Perspective

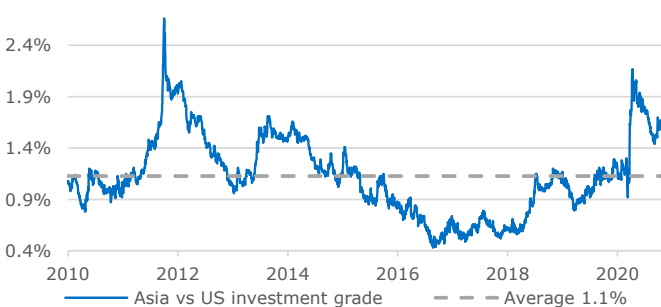
9) Loans vs. CLO vs. HY: CLO prices rallied strongly, what tightened CLO BB yields to 827 bps, but remain much wider vs. "peers".



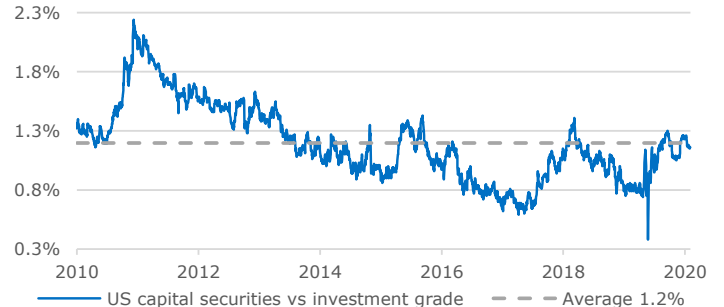
10) CLO Yields: CLO yields offer a significant yield premium vs. bonds/loans, whereas BB/BBBs look particularly attractive.



11) Asia vs. US: USA IG spreads have tightened more than in Asia, and we identify more attractive value in Asia than in the U.S.



12) Capital vs IG.: Capital Securities structurally earn a premium vs. US IG bonds. Capital Securities are dominated by the financial sector.



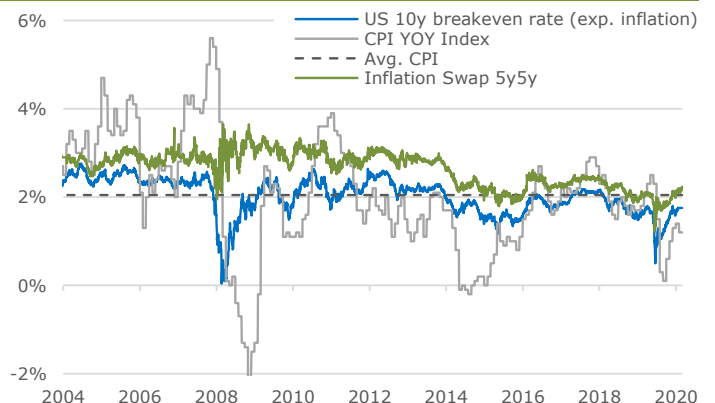
Education Corner

TIPS in the current environment

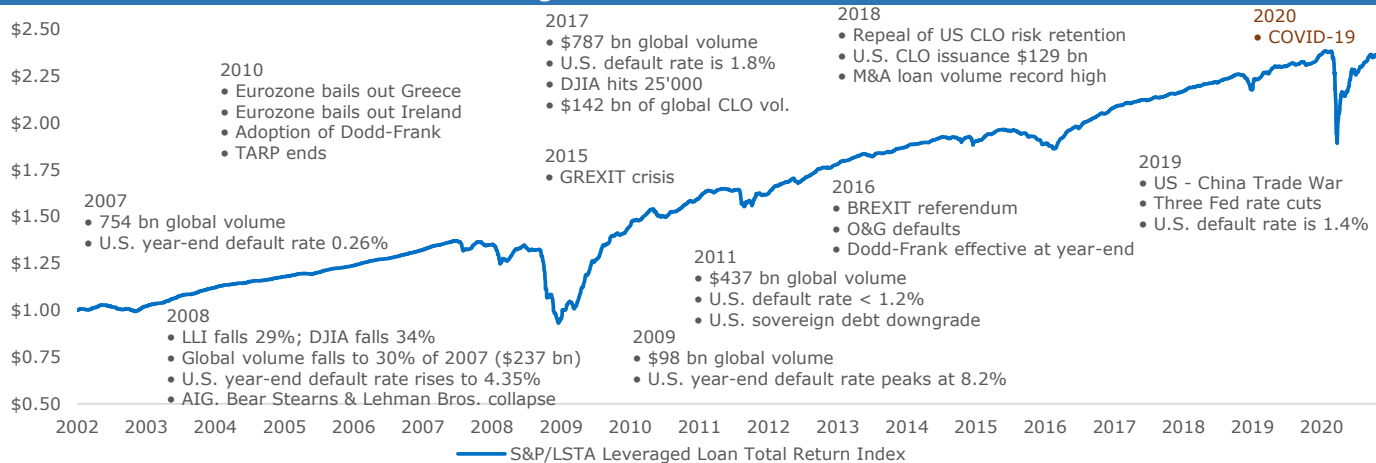
As described in the month before, buying TIPS makes sense, if the investor believes future inflation will trend higher than the breakeven rate (real rate).

Based on the mean-reversion theory, a simple indication about future inflation is the long-term average inflation rate of the US CPI Urban Consumer index, which is now at 2%. Another market sentiment indicator of the inflation in 10 years is the Inflation Swap 5y5y, which currently stands at 2.15%.

At the end of November 2020, the break-even rate is slightly below the two indicators mentioned above, which is on the margin a (weak) buying signal.



US Loan Index Total Return - Attractive Long Term Yield Generation



List of Abbreviations

Capital Securities (Or preferred securities): Are fixed income securities combining features of bonds and preferred stocks.

CDS: Credit default swaps transfer credit event risk to another party in exchange of a periodically paid premium. CDX index covers the US IG-, iTraxx the EU IG- and iTraxx crossover (XO) the EU HY market.

CLOs: Collateralized loan obligations are structured finance securities collateralized predominantly by a large pool of different loans.

Default Rate: Number of defaulted corporate issuers of leveraged loans and high yield bonds.

Loans: Are syndicated, public tradable loans. Synonyms are «syndicated loans», «loans», «leveraged loans» and «bank loans».

OAS: Option-adjusted spread is the yield difference of an interest paying security to the risk free rate considering embedded options.

TIPS: Treasury Inflation-Protected Securities are US government linked to the US CPI Urban Non-Seasonally Adjusted.

Up-/ downgrades: Rating actions of Moody's and S&P of up-or downgrades of US high yield bond issuers denominated in USD.

Up-/ downgrade ratio: Number of upgrades of total rating actions.

Recovery Rates: Bond issuer-weighted recovery rates express the principal and accrued interest on defaulted debt that can be recovered in percentage of face value. Example:

Expected loss rate if US HY defaults were 10%: 10% ./ Estimated average recovery rate of ~30% = -7%; Example for Loans:

Expected loss rate if US Loan defaults were 10%: 10% ./ Estimated average recovery rate of ~65% = -3.5%;

Data and Price Sources

Alpium Investment Management

Bank of America Merrill Lynch indices

Bloomberg

The Federal Reserve

Federal Reserve Bank of St. Louis

Markit CDS indices

Moody's Investors Service

J.P. Morgan

Palmer Square indices

Preqin

S&P

Disclaimer

This document does not constitute an offer to anyone, or a solicitation by anyone, to make any investments in securities. Such offer will only be made by means of a personal, confidential memorandum. This document is for the intended recipient only and may not be transmitted or distributed to third parties.

Past performance is not a guide to future performance and may not be repeated. You should remember that the value of investments can go down as well as up and is not guaranteed. The actual performance realized by any given investor depends on, amongst other things, the currency fluctuations, the investment strategy invested into and the classes of interests subscribed for the period during which such interests are held. Emerging markets refer to the markets in countries that possess one or more characteristics such as certain degrees of political instability, relative unpredictability in financial markets and economic growth patterns, a financial market that is still at the development stage, or a weak economy. Respective investments may carry enhanced risks and should only be considered by sophisticated investors.

Nothing contained in this document constitutes financial, legal, tax, investment or other advice, nor should any investment or any other decisions be made solely based on this document. Although all information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, no representation or warranty, express or implied, is made as to its accuracy or completeness and no liability is accepted for any direct or indirect damages resulting from or arising out of the use of this information. All information as well as any prices indicated is subject to change without notice. Any information on asset classes, asset allocations and investment instruments is only indicative. Before entering into any transaction, investors should consider the suitability of the transaction to their own individual circumstances and objectives. We strongly suggest that you consult your independent advisors in relation to any legal, tax, accounting and regulatory issues before making any investments.

This publication may contain information obtained from third parties, including but not limited to rating agencies such as Standard & Poor's, Moody's and Fitch. Reproduction and distribution of third-party content in any form is prohibited except with the prior written permission of the related third party. Alpium Investment Management AG and the third-party providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and will not be responsible for any errors or omissions (negligent or otherwise), or for the results obtained from the use of such content. Third-party data are owned by the applicable third parties and are provided for your internal use only. Such data may not be reproduced or re-disseminated and may not be used to create any financial instruments or products, or any indices. Such data are provided without any warranties of any kind.

If you have any enquiries concerning the document please contact your Alpium Investment Management AG contact for further information. The document is not directed to any person in any jurisdiction which is prohibited by law to access such information. All information is subject to copyright with all rights reserved. Any communication with Alpium Investment Management AG may be recorded.

Alpium Investment Management AG is incorporated in Switzerland and is FINMA licensed and regulated.

Contact Information:
Alpium Investment Management AG
Talstrasse 82
CH-8001 Zurich
Tel: +41 43 888 79 30
Fax: +41 43 888 79 31
alpiumim.com